

**PATTERNS OF ENTREPRENEURSHIP  
IN RURAL CALIFORNIA**

**AN OVERVIEW**



A Report of the  
California Regional Economies Project  
July 2005

Prepared By  
Collaborative Economics, Inc.

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## **PREFACE**

### **THE CALIFORNIA REGIONAL ECONOMIES PROJECT**

The California Regional Economies Project provides the state's economic and workforce development system with information about changing regional economies and labor markets. The Project is a joint effort of the California Workforce Investment Board and the California Economic Strategy Panel. The Project was initiated in 2003 in response to these challenges:

- California's economy is under-performing relative to its potential—we have tremendous talent, world-class companies, and a tradition of innovation;
- California lacks an economic and workforce investment strategy that focuses on regional strengths and opportunities, and connects state and local efforts for maximum impact; and,
- Local and state policymakers lack reliable and timely information about emerging industry and job opportunities, making good investment and policy decisions difficult.

The Project develops information that measures the performance of California's regional economies. This information provides a key resource in economic and workforce development planning, and a bridge connecting economic and workforce policies and programs at the state and regional levels.

Through its products and forums, the California Regional Economies Project fills a need for better information that can:

- improve specific decisions about state, regional, and local workforce investments and policies;
- connect state, regional, and local economic and workforce investment strategies;
- focus state, regional, and local marketing efforts on areas of regional economic advantage and opportunity;
- inform policy and investment decisions of government so that they promote, rather than discourage economic innovation and competitiveness; and,
- help individuals navigate their own transition to new employment opportunities.

## PHASES I AND II OF THE PROJECT: PRODUCTS AND FORUMS FOR USERS

In 2003-2005, information was compiled and updated for each of the nine California Economic Strategy Panel regions—Northern California, Northern Sacramento Valley, Greater Sacramento, Bay Area, San Joaquin Valley, Central Sierra, Central Coast, Southern California, and the San Diego Border Region (see following map).

Each of these reports was originally presented at a regional forum, and discussed with the regional user community (e.g., employers, workforce investment boards, local economic development organizations, local education and training institutions, local government agencies, and other interested community leaders). At each forum, users had the opportunity to discuss the findings and suggest priorities for further cluster analysis.

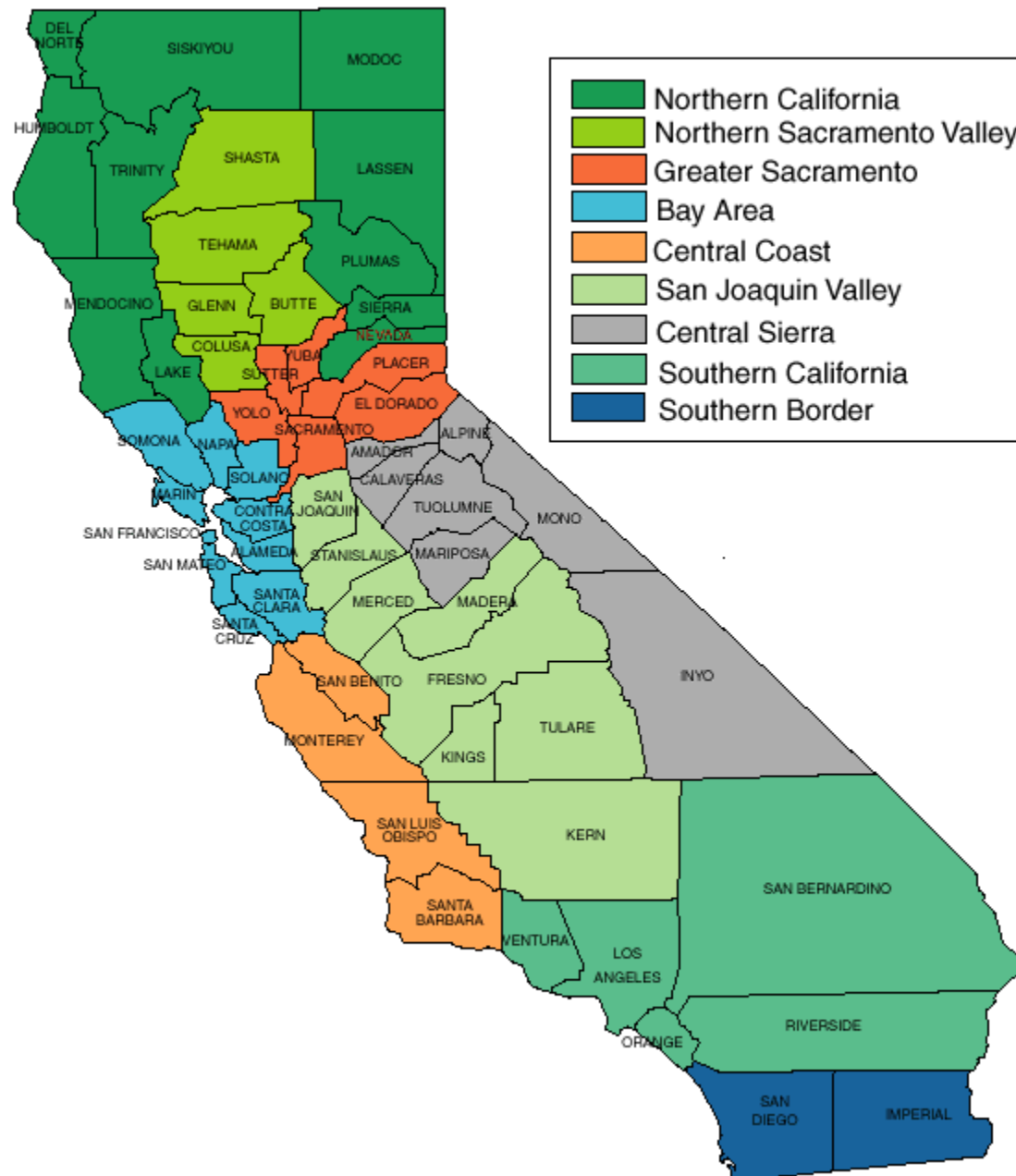
In addition, the Project compiled multi-region, cross-cutting Cluster of Opportunity reports. The focus for these reports was based on recommendations from the user community at regional forums and analysis of trends in the regional data. As a result, the Project focused on industries and occupations involved in:

- *Health Science and Services* (across all nine regions of California);
- *Manufacturing Value Chain* (the value chain of design, production, and logistics sectors in the five most urban regions of the state); and,
- *Regional Experience/Infrastructure* (in the four most rural regions California).

Each region was examined as part of two cluster reports, as shown below.

<b>Regions</b>	<b>Health Science And Services</b>	<b>Manufacturing Value Chain</b>	<b>Regional Exp/Infra</b>
Northern California	XX		XX
Northern Sacramento Valley	XX		XX
Greater Sacramento	XX	XX	
Bay Area	XX	XX	
San Joaquin Valley	XX	XX	
Central Sierra	XX		XX
Central Coast	XX		XX
Southern California	XX	XX	
San Diego/Border	XX	XX	

# The Project Regions



Following these initial reports, the Project produced reports looking more closely at specific topics:

- *Role of Logistics in the Manufacturing Value Chain.* A focused examination of the forces stimulating the growth of logistics in California, including industry and occupational impacts, and implications for economic and workforce development.
- *Patterns of Rural Entrepreneurship.* An overview of patterns using the comprehensive National Establishment Time Series (NETS) database of firms, including the growth in new firms, impact on rural job creation, movement of firms, and sectors accounting for most of the entrepreneurship in rural California.

The Project has also produced monographs focused on key policy areas of concern to the regional user community and state-level policymakers. These monographs are focused on:

- *The Conditions of Competitiveness of California's Economy.* This monograph provides a balanced look at California's business climate by examining both cost and productivity factors with a special focus on the role of talent.
- *Innovation, Productivity and California's Prosperity.* This monograph examines the role of innovation in changing industry clusters, the impact of innovation and technology on productivity as well as the impact of productivity on the dynamics of job change.
- *Creating a Workforce Transition System in California:* Based on the regional analysis, this monograph recommends how a workforce transition system could be designed to help workers make transitions both within industries through career progression from entry to mid and higher occupational levels as well as transition across industries through adjustment to structural economic changes.

The monographs reinforce findings from the cluster reports as well—namely the importance of a balanced business climate based on cost and productivity, the imperative of innovation across all industries, and the need for a more effective workforce transition system to support California employers in their drive to innovate and remain competitive in the global economy. All of the reports are available at [www.labor.ca.gov/panel/](http://www.labor.ca.gov/panel/).

## PROJECT TEAM AND SPONSORS

The Project Team has included Collaborative Economics ([www.coecon.com](http://www.coecon.com)), Center for the Continuing Study of the California Economy, ([www.ccsce.com](http://www.ccsce.com)), California Center for Regional Leadership ([www.calregions.org](http://www.calregions.org)), and Action Research, Inc.

The California Workforce Investment Board (see [www.calwia.ca.gov](http://www.calwia.ca.gov)) and the California Economic Strategy Panel (see [www.labor.ca.gov/panel](http://www.labor.ca.gov/panel)) sponsored the project.

## EXECUTIVE SUMMARY

*Why is entrepreneurship important in rural California?*

- *It is clear from national research and experience that entrepreneurship plays a critical role in regional economic development.* The constant creation of new firms is essential to economic prosperity. In fact, entrepreneurship may be the single biggest driver of economic growth, job creation, and industrial and technological innovation in most regions—both rural and urban alike.

*What role has entrepreneurship played in rural California in recent years?*

- *Entrepreneurship has been the key to increasing the number of establishments in rural regions.* The total number of establishments grew about 18% between 1990 and 2003 (the latest comprehensive data available) in the four predominantly rural regions identified by the California Economic Strategy Panel. These regions are: Central Coast, Central Sierra, Northern California, and Northern Sacramento Valley. In these regions, there was a net gain of just over 18,000 establishments, increasing from about 99,000 to 117,000 establishments.
- *Rural regions are full of young establishments, created only in just the past few years.* Forty percent of all firms in these rural regions were created in just five years between 1997 and 2002 (the latest comprehensive start data available), with another 20% created between 1990 and 1996.
- *Entrepreneurship has been the key to job creation in rural areas.* As a group, new firms in these rural regions have added jobs, while existing firms as a group lost jobs. Existing firms include larger, older firms that downsized (e.g., resource-based industries like forest products) as well as smaller, younger firms that faltered or failed.
- *Most rural establishments are headquarters or independent operations, not branch plants.* Ninety percent of firms in these rural regions are either headquarters with branches or independent, single-location operations without branches, with only 10% of establishments being branches of companies with headquarters outside the region. Rural headquarters and independent operations also employ about 2/3 of all workers in these regions, compared to about 1/3 in branches.
- *Very few rural establishments ever move outside their county of origin.* Over the entire 1990 to 2003 period, only 3% of establishments in these rural regions moved outside their county of origin. Rural establishments may gain employees, lose employees, or fail, but seldom do they move to other parts of California or other states.



- *Over 80% of net growth in establishments in these rural regions can be attributed to sectors related to regional experience, health, and innovation services. Almost two-thirds of all of the growth was in two clusters of opportunity: regional experience and health services. Innovation services—including technical, managerial, and related consulting—are also finding rural regions to be a good location to operate, accounting for almost 20% of the net growth in new establishments between 1990 and 2003.*

*What are the implications for state and regional action?*

- *The evidence suggests that new, homegrown firms are the biggest contributor to rural jobs. Should the creation and support of new, homegrown firms be a top priority for regional and state action in both rural economic and workforce development?*
- *The evidence suggests that almost all establishments in rural regions have never moved—either into or out of their county of origin. Should relocation be a top priority for regional and state action, since movements into and out of rural areas account for a very small fraction of their overall economy? Instead of establishments moving in, rural regions actually benefit much more from people moving in, some of whom start businesses, adding to the growth in entrepreneurial firms.*
- *The evidence suggests that much of the net growth in establishments can be found in just three major industry areas. Should regional and state action focus on expanding on the natural advantages of rural regions in regional experience, health services, and innovation services?*
- *National research and experience suggest that a subset of firms are fast-growing, and contribute more proportionately to economic development. Should regional and state action focus on encouraging the subset of high-growth companies in general, or within certain clusters of opportunity?*
- *National research and experience suggest that a region's "habitat" for entrepreneurship is critically important. Should regional and state action focus on helping rural regions strengthen their environment for entrepreneurship?*

## I. THE ROLE OF ENTREPRENEURSHIP IN REGIONAL ECONOMIC DEVELOPMENT

### Entrepreneurship Drives Regional Economic Development

*As cited in prior reports by Collaborative Economics (see appendix), it is clear that national research and experience shows that entrepreneurship plays a critical role in regional economic development.* The constant creation of new firms is essential to economic prosperity. In fact, entrepreneurship may be the single biggest driver of economic growth, job creation, and industrial and technological innovation in most regions. For example:

- The most comprehensive, ongoing assessment of entrepreneurship is the Global Entrepreneurship Monitor (GEM), a multi-year comparison of entrepreneurial activity across countries. GEM has found repeatedly that new business creation is highly associated with economic growth worldwide.
- A comprehensive study of entrepreneurial dynamics sponsored by the Kauffman Foundation called *The Entrepreneur Next Door* (2002) points out that new firms are the dominant source of net job growth in the U.S. economy, while there is net job loss among older firms, whether large or small.
- Based on a review of research in the field, the National Commission on Entrepreneurship (now the National Dialogue on Entrepreneurship) estimated that entrepreneurs account for at least 2/3 of all technological innovation, and that 1/3 to 2/3 of the difference in national growth rates is due to high growth companies.
- The Commission has also documented the entrepreneurial origins of the Fortune 200, and found that the formation of new industries and the development of most new technologies were highly dependent on the creation of new firms. Further, they point out that in 1960, it took 20 years to replace 35% of the Fortune 500; by 1999, it only took 4 years.

*Entrepreneurship is essential to cope with and capitalize on a new global economic environment.* In this competitive environment, regional economic success depends on the ability of people and firms to be fast, global, knowledge-based, networked, and technology intensive.

- *Fast.* Time is market. Companies must compete to develop and produce innovative products and services faster than their competition.
- *Global.* Companies must operate and sell globally, and compete against international competition.

- *Knowledge-based.* The knowledge and know-how of employees are essential to the success of companies.
- *Networked.* Companies must specialize in what they do best and develop relationships with partners, suppliers, and subcontractors to do the rest. They must tap into information and innovation networks to stay abreast of change.
- *Technology-intensive.* Companies must create, adapt, and use technology—basic as well as sophisticated—to improve products and processes constantly.

It is a “new economy” in the sense that it is about applying new ways of doing business to a wide range of products, services, and sectors. It impacts all regions, is a global phenomenon, and creates opportunities for all communities to participate. It is increasingly an economy driven less by large, full-service firms based primarily in large urban centers, and increasingly by growing networks of firms of many sizes that are located in a variety of communities—from large metropolitan areas to mid-size communities to small towns in more rural areas—creating distinctive specialties that make them competitive in global markets.

*In short, the new economic environment rewards places that develop a diversified base of high-quality specializations. Entrepreneurship is a key driver—and sometimes the most important driver of this process.* The goal is to build a set of economic specializations (industries and jobs) of rising quality (wages) that provides a firm foundation for prosperity. The key ingredient: leadership that can seize opportunities that best advance the diversity, distinctiveness, and quality of the region’s economy. These are the success factors in the new economic environment.

## **Entrepreneurship is Driven by Individuals and Firms**

*Understanding entrepreneurship requires understanding the contributions of individuals and firms.* Entrepreneurs can be self-employed, operate in a partnership, or establish a corporation, often with others. According to the National Dialogue on Entrepreneurship, many definitions of entrepreneurs exists, but the one that seems to best fit the research and experience is: *an individual engaged in the process of starting and growing one’s own business or idea.* Accordingly, success in entrepreneurship depends not only on knowledge, but putting that knowledge into action. In addition, there are some individuals that want to go beyond the basics: they choose to take the personal and business risks necessary to grow their business at a rapid rate in terms of revenues, employees, or both. Research suggests that this subset of high-growth firms are responsible for much of the creation of new products and industries that can transform regional economies.

The Kauffman Foundation has been a major sponsor of research into the nature of entrepreneurship. In 2002, the Foundation published a national, multi-year study (*The Entrepreneur Next Door: Characteristics of Individuals Starting Companies in*

*America*), which was the first research effort to offer systematic and reliable data on the process of business formation. The study tracked a group of emerging entrepreneurs as they progressed through the entrepreneurial process, revealing that attempts at new business formation are more widespread than previously disclosed and involve all racial and ethnic groups.

Key conclusions from this national research, which surveyed more than 64,000 households nationwide:

- *Entrepreneurship is a widespread activity in the United States*—about 6 of every 100 U.S. adults 18 years and older (or more than 10 million Americans) are engaged in trying to start new firms. About one-half of all new ventures are started by individuals and about one-half by teams of people.
- *While the rate of activity varies by group and geography, there is no one group that is not substantially engaged in entrepreneurship.* Entrepreneurship substantially involves individuals of all ages, with the most active group being men ages 25-34. Men are about twice as likely to start a business than are women (i.e., 8.1 per 100 versus 4.5 per 100 adults). Blacks are 50% more likely to engage in start-up activities than whites. The prevalence of entrepreneurs is higher in urban areas—but it varies by group. For example, Hispanic entrepreneurial activity is highest in the least urban contexts.
- *Education and household income significantly predicts entrepreneurship.* Those with higher incomes are more likely to be involved in starting a business. The relationship between education and entrepreneurship is particularly strong for black men (26% of those with graduate education experience have tried to start a business) and Hispanic men (20%), compared to white men (10%).

Moreover, the National Commission on Entrepreneurship's *High Growth Companies: Mapping America's Entrepreneurial Landscape* (2001) focused on the subset of high-growth entrepreneurial companies and found that:

- Fewer than one in twenty U.S. businesses achieve high-growth rates.
- High growth companies are found in all regions of the country, often concentrated in the most surprising areas (e.g., rust belt).
- Most fast-growing, entrepreneurial companies are not in “high tech” industries.
- Each one of the 394 regions of the country contains some high-growth companies.
- Most regions' high-growth companies are concentrated in certain specific industry sectors.

*These major studies document the importance and diversity of entrepreneurship across the country.* They demonstrate that entrepreneurship is not just important for high-tech centers, but for every region of the country. They show that entrepreneurship is not just about entrepreneurial individuals, but teams that form companies. They find that entrepreneurship and high-growth companies are not limited to certain industries, but

flourish throughout the economy. They also document that not all small and new companies are the same—some are high-growth firms that have a unique role to play in bringing new jobs and innovations to regional economies.

*The most economically successful regions are those with a strong, continuing flow of new entrepreneurial firms.* However, it is not only the high-profile places like Austin, San Diego, or Silicon Valley where entrepreneurship is critical, but many large, medium, and smaller urban and rural communities that have diversified and expanded their economies thanks to the energy and persistence of entrepreneurs. While it is true that some regions have succeeded in a strong entrepreneurial niche (i.e., a specific industry sector), it is much more common that regions succeed with strong entrepreneurial diversity, spanning several industry sectors. Well-known places like Austin, San Diego, or Silicon Valley have, upon closer examination, actually succeeded by having a strong “habitat” for entrepreneurship, which encourages and produces a wide range of start-ups in different industry sectors.

## II. PATTERNS OF ENTREPRENEURSHIP IN RURAL CALIFORNIA

The evidence suggests that entrepreneurship is central to the economies of rural California. Using the National Establishments Time Series (NETS) database, the following patterns of entrepreneurship in rural regions of California spanning the 1990 to 2003 period were identified:

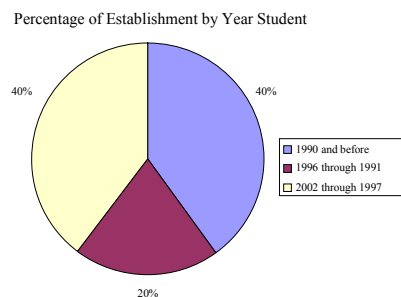
*Entrepreneurship has been the key to increasing the number of establishments in rural regions.*

The total number of establishments grew about 18% between 1990 and 2003 (the latest comprehensive data available) in the four predominantly rural regions identified by the California Economic Strategy Panel. These regions are: Central Coast, Central Sierra, Northern California, and Northern Sacramento Valley. In these regions, there was a net gain of just over 18,000 establishments, increasing from about 99,000 to 117,000 establishments.

*Rural regions are full of young establishments, created only in just the past few years.*

Forty percent of all firms in these rural regions were created in just five years between 1997 and 2002 (the latest comprehensive start data available), with another 20% created between 1990 and 1996 (Figure II-1).

Figure II-1 Rural California Full of Young Establishments



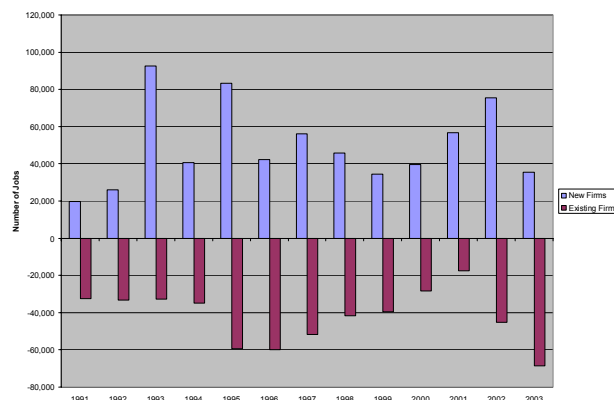
*The vast majority of establishments are very small, many are small and young.*

Seventy-four percent of all firms in rural California have fewer than five employees, and establishments with more than a hundred employees make up less than 1% of establishments. One-third of establishments have fewer than five employees and are five-years old or younger.

*Entrepreneurship has been the key to job creation in rural areas.*

As a group, new firms in these rural regions have added jobs, while existing firms as a group lost jobs. Existing firms include larger, older firms that downsized (e.g., resource-based industries like forest products) as well as smaller, younger firms that faltered or failed (Figure II-2).

**Figure II-2 New Establishments Are the Rural Job Creators**

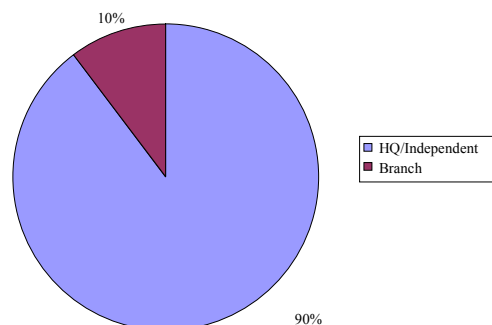


*Most rural establishments are headquarters or independent operations, not branch plants.*

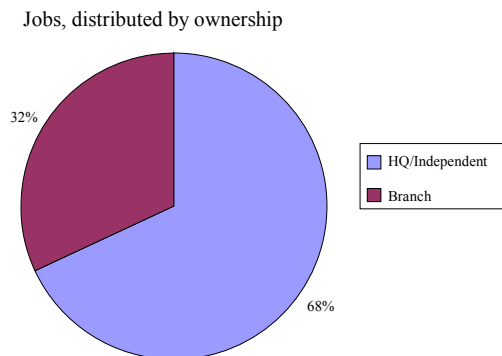
Ninety percent of firms in these rural regions are either headquarters with branches or independent, single-location operations without branches, with only 10% of establishments being branches of companies with headquarters outside the region (Figure II-3). Rural headquarters and independent operations also employ about 2/3 of all workers in these regions, compared to about 1/3 in branches (Figure II-4).

**Figure II-3 90% of Rural Establishments are Headquarters/Independent Operations**

Distribution, according to ownership



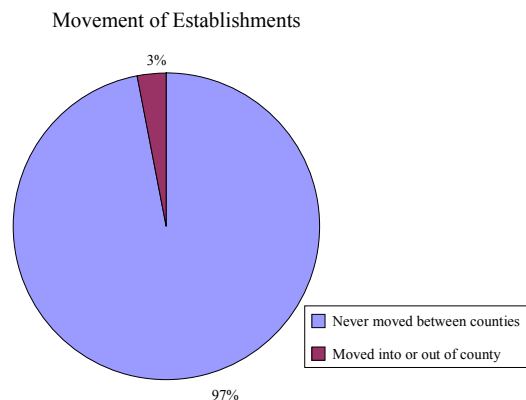
**Figure II-4 Rural Headquarters/Independents  
Are Biggest Employer**



*Very few rural establishments ever move outside their county of origin.*

Over the entire 1990 to 2003 period, only 3% of establishments in these rural regions moved outside their county of origin (Figure II-5). Rural establishments may gain employees, lose employees, or fail, but seldom do they move to other parts of California or other states.

**Figure II-5 Rural Firms Stay Put**

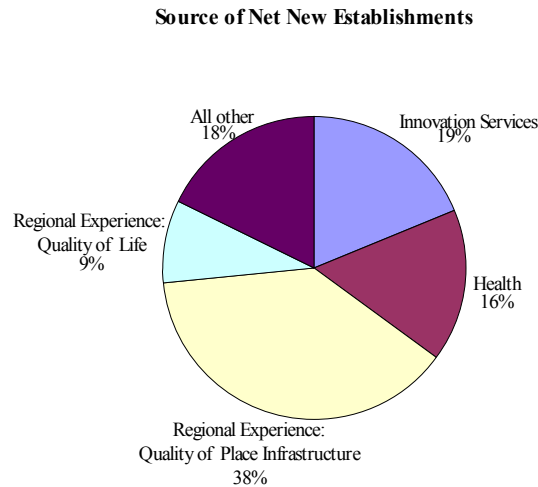


*Over 80% of net growth in establishments in these rural regions can be attributed to sectors related to regional experience, health, and innovation services.*

Regional experience (47%), innovation services (19%), and health services (16%) accounted for 83% of all of net establishment growth in these rural regions (Figure II-6). By 2003, these sectors accounted for 49% of the establishments and 43% of the employment of these regions. In all three cases, these sectors added establishments and jobs well above the average for all four rural regions (18% and 10%, respectively).



**Figure II-6 Sectors with Most Entrepreneurial Growth**



In health services, establishments grew 52%, while employment rose 27% between 1990 and 2003. Most of the growth was in physician offices, offices of other health practitioners, residential care facilities, outpatient care centers, and home health care services. The expanding diversification of health care beyond hospital settings, as well as rising retiree populations in many rural communities have helped to fuel this growth.

Innovation services are also finding rural regions to be a good location to operate. The number of establishments increased 80% between 1990 and 2003. Employment in these establishments also grew 63% during this period. Innovation services include the following:

- *Scientific/Technical Consulting Services*—including advice and assistance to businesses and other organizations on designs and specifications that optimize the use, value, and appearance of their products.
- *Management Consulting Services*—including advice and assistance to businesses and other organizations on management issues, such as strategic and organizational planning; financial planning and budgeting; marketing objectives and policies.
- *Engineering and Design Services*—including the application of physical laws and principles of engineering in the design, development, and utilization of machines, materials, instruments, structures, processes, and systems.
- *Research and Development in the Physical, Engineering, and Life Sciences*—including research and experimental development in the physical, engineering, and life sciences, such as agriculture, electronics, environmental, biology, botany, biotechnology, computers, chemistry, food, fisheries, forests, geology, health, mathematics, medicine, oceanography, pharmacy, physics, veterinary, and other allied subjects.

- *Computer Systems Design and Related Services*—including writing, modifying, testing, and supporting software to meet the needs of a particular customer; planning and designing computer systems that integrate computer hardware, software, and communication technologies; and on-site management and operation of clients' computer systems and/or data processing facilities.

Many of these establishments are very small, and may be one of the consequences of a population shift from urban to rural California. In the 1990s, especially with growing access to the internet, the ability to conduct business from rural areas has grown. Today, more people can start and run businesses from a rural community that is globally connected and competitive than ever before.

The “regional experience” sectors together experienced larger than average increases in the number of establishments (27%) and employment (16%). As pointed out in more depth in the California Regional Economies Project’s 2004 report (see Appendix), this cluster of opportunity includes a large and diverse set of industries and occupations—and is an increasingly important part of rural California economies. As this report shows, this cluster represents a substantial share of regional employment in rural California (about 25%), and an even bigger share of regional job gains (almost 30%) over the last decade. This cluster of opportunity has grown faster than the overall job growth rate in the four regions—Central Coast, Central Sierra, Northern California, and the Northern Sacramento Valley. It represents a comparative advantage for rural California regions in relation to the U.S. average. And, it offers a wide range of jobs at all levels.

The cluster includes those major sectors that help leverage the distinctive natural and built assets of the region, creating jobs in the process. The cluster generates added value from the unique regional combination of natural, historical, cultural, educational, leisure, and eating, drinking, and shopping experiences. By doing so, it enables the region to attract visitors, residents, and businesses on the basis of distinctive quality rather than lowest cost, which can help improve economic opportunity and wages over time.

The cluster includes not only traditional tourism-related sectors, but also sectors that support a distinctive quality of life for residents. It includes not only employers and occupations directly associated with specific quality of life experiences, but also employers and occupations that offer “behind the scenes” support, making access to and the staging of the region’s quality of life experiences possible (Figure II-7).

The quality of life experiences for visitors and residents alike fall into four broad categories. In each category, “experiences” are organized, packaged, promoted, and provided by firms offering services, products, or a mix of both. In each category, there is a range of high, mid, and lower-level occupations.

*Natural places and experiences*—including the mountains, rivers, beaches, and other natural amenities that provide the context for sightseeing, recreation, and other participatory activities.

*Historical, cultural, and other educational sites, exhibits, and events*—including the museums, art galleries, live performances, festivals, and educational experiences, including agricultural tourism and other education distinctive to the region.

*Leisure*—including the amusement parks, golf courses, gambling establishments, sporting events, and related leisure-time activities, which may include distinctive regional themes or characteristics (e.g., theme parks, golf courses with unique terrains, sports depending on local assets, like surfing, skiing, or boating).

*Specialty Food, Beverages, and Retail*—including the full-service restaurants offering regional specialties, the wineries and breweries with distinctive regional beverages and related products, and retail establishments that showcase regional products.

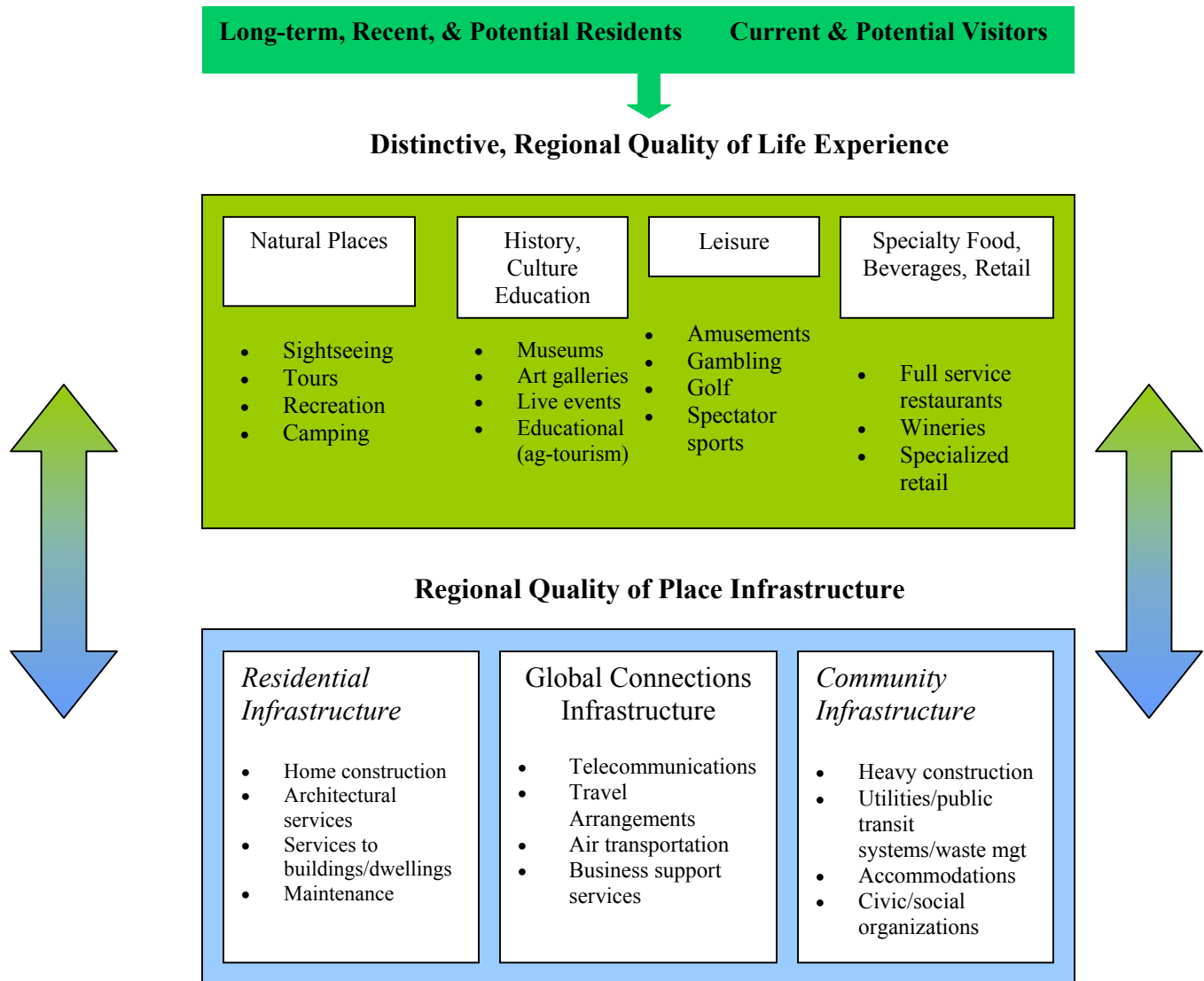
Supporting this range quality of life experiences for residents and visitors is a quality of place infrastructure. Without this infrastructure, it would be difficult for people to live in, get around, or get to the region to participate in the natural, historical, cultural, educational, leisure, or specialty food, beverage, accommodation, and retail experiences. Without a good “quality of place,” potential visitors and new residents are more likely to choose other locations. This critical infrastructure is of three kinds:

*Residential infrastructure*—including home construction, architectural services, services to buildings (including landscaping) and maintenance are all critical in how residents experience their life at home, and can reflect regional specialization in design and maintenance due to climate, terrain, and other factors.

*Global connections infrastructure*—including the transportation networks that get visitors (as well as some long-distance commuters and business people with global customers) to and from the region, the telecommunications networks that enable people to visit the region “virtually”, web-shopping for “experiences” they want, as well as residents who require an internet connection to conduct business, those who make travel arrangements, and the special business support services (e.g., couriers, copying businesses) that enable residents to make global connections.

*Community infrastructure*—including the hard infrastructure of commercial construction, utility systems, and public transit systems that enable people to get around the region and experience places like downtowns, special districts, and natural, cultural, and historic sites. Also included are accommodations for visitors and the fabric of private civic and social organizations that connect people, providing the “infrastructure” for shared experiences around common interests.

**Figure II-7 Regional Experience Cluster of Opportunity**



Clearly, there are overlaps among the categories, even among individual employers who provide multiple products and services. In fact, the interplay between natural and built assets in rural areas (i.e., the natural sites combined with museums, specialty food, retail, and accommodations, etc.) can be one of the biggest economic opportunities in rural California. There are also different categorization schemes offered by the Bureau of Labor Statistics and other sources. Regardless of the specific boundaries of the categories, taken as a whole, the main elements included in the four categories provide a comprehensive description of the range of quality of life experiences, as well as the industries and employment that are directly tied to the “staging” of those experiences.

### III. IMPLICATIONS FOR STATE AND REGIONAL POLICY

#### The Findings Raise Questions

*The evidence suggests that new, homegrown firms are the biggest contributor to rural jobs. Should the creation and support of new, homegrown firms be a top priority for regional and state action in both rural economic and workforce development?*

*The evidence suggests that almost all establishments in rural regions have never moved—either into or out of their county of origin. Should relocation be a top priority for regional and state action, since movements into and out of rural areas account for a very small fraction of their overall economy? Instead of establishments moving in, rural regions actually benefit much more from people moving in, some of whom start businesses, adding to the growth in entrepreneurial firms.*

*The evidence suggests that much of the net growth in establishments can be found in just three major industry areas. Should regional and state action focus on expanding on the natural advantages of rural regions in regional experience, health services, and innovation services?*

*National research and experience suggest that a subset of firms are fast-growing, and contribute more proportionately to economic development. Should regional and state action focus on encouraging the subset of high-growth companies in general, or within certain clusters of opportunity?*

*National research and experience suggest that a region's "habitat" for entrepreneurship is critically important. Should regional and state action focus on helping rural regions strengthen their environment for entrepreneurship?*

#### Entrepreneurship is Dependent on Regional Habitat

Entrepreneurship does not exist in a vacuum. It is a phenomenon that requires a supportive environment in which to flourish, which accounts for the differences in the level and success of entrepreneurship across regions. Many researchers and practitioners have defined elements of this supportive environment. For example, based on work done across the country in over 40 communities in the last two decades, Collaborative Economics, Inc. has organized these ingredients into four broad categories, summarized in a report for the Heinz Endowments (*Innovative Regions: The Importance of Place and Networks*, 1999):

- *Assets*—The education, research, and financial institutions, the physical infrastructure, as well as specialized business services and support, necessary for success.

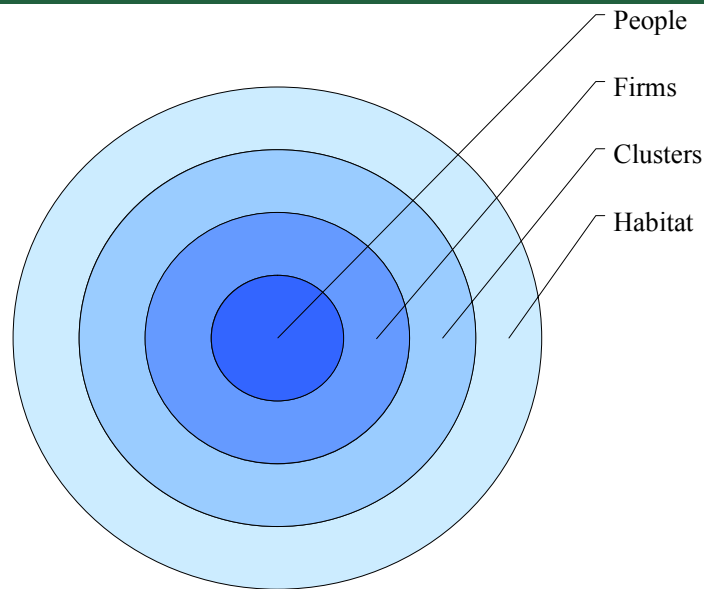
- *Connections*—The networks that connect entrepreneurs with assets, such as industry associations, angel capital networks, specialized programs to link university assets and entrepreneurs (e.g., UC-Connect).
- *Culture*—the intangibles of attitude and mindset that determines how accepting and conversant a region is towards innovation and entrepreneurship.
- *Quality of life*—the environment and amenities that attract and retain talented entrepreneurs and how a region deals with major issues such as transportation bottlenecks, crime, or poor schools.

It is important to note that these are the ingredients. It is how these ingredients are combined, through regional leadership, that makes the difference. Without the proper “recipe,” regions that have strong assets, connections, culture, and quality of life can still under-perform in terms of entrepreneurship and innovation.

### **A Framework for Understanding and Promoting Entrepreneurship**

Since it plays a critical role in regional economic development, it is essential that entrepreneurship be understood and promoted. A framework for understanding entrepreneurship and rural California begins with the essential ingredients: entrepreneurial people and then firms at the core. They are the main drivers of an entrepreneurial region. These firms can create specializations or clusters of opportunity, which provide a unique or comparative advantage for a region. All these components—Entrepreneurial People, Firms, and Clusters—exist in a Regional Habitat (Figure III-1).

**Figure III-1 Targeting Entrepreneurship**



The data and analysis generated by the California Regional Economies Project can help inform state, regional, and local policy and action. It can:

- Provide local general purpose government, councils of governments and other municipal bodies with timely information on establishment and employment growth and decline by industry statewide and in each economic region to help them prepare targeted infrastructure investment plans and identify economic development priorities.
- Provide State and local employment training and education organizations with detailed information on establishments and high demand occupations by industry statewide and in each economic region to assist in the development of targeted workforce investment plans, curriculum development, school to career partnerships, and industry sector initiatives.
- Provide State and local economic development organizations with an analysis of industry trends in establishment and employment growth and concentration by industry statewide and in each economic region to assist them in the development of successful local economic strategies.
- Provide human resource officers, employment agencies, labor councils, and community services partners with timely information about changing industry needs and occupational demands to better serve employers and workers.

- Provide State and local business and industry associations and their members with an analysis of industry trends in establishment and employment growth and concentration for their industry statewide and in each economic region, to adjust their business plans to documented economic trends and conditions and assess workforce needs and gaps.
- Provide State and local research organizations and consulting firms with base line data for comparative studies on the establishment and employment growth and decline of key industries statewide and in each region to assess the potential causes for these trends and their impact on the economy statewide and by region.
- Provide the Legislature (at the State and district levels) and the Administration with the ability to track the economic impact of establishment and employment growth and decline on an ongoing basis, for informing policy debates about the state of the California economy and aligning state resources and policies to support regional strategies.
- Provide the general public, news organizations and opinion makers with accurate information about establishment and employment growth and decline by industry statewide and in each economic region to build a better understanding of economic trends and their implication for California workers, businesses and investors.



## APPENDIX

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